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# EXECUTIVE SECRETARIAT

**ROUTING SLIP**

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| | | ACTION | INFO | DATE | INITIAL |
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| 1 | DCI | | X | | |
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| 9 | Chm/NIC | | | | |
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| 11 | IG | | | | |
| 12 | Compt | | | | |
| 13 | D/Pers | | | | |
| 14 | D/OLL | | | | |
| 15 | D/PAO | | | | |
| 16 | SA/IA | | | | |
| 17 | AO/DCI | | | | |
| 18 | C/IPD/OIS | | | | |
| 19 | NIO/Econ | | X | | |
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SUSPENSE ____________ Date

Remarks

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Executive Secretary

23 April 1985

Date

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Bill Casey

For Your Information

Mac Baldrige

Secretary of Commerce

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Executive Registry
85- 1208

# REMARKS OF HONORABLE MALCOLM BALDRIGE SECRETARY OF COMMERCE

PRESENTED AT THE
CONFERENCE ON EMPLOYMENT AND TECHNOLOGY
VENICE, ITALY
APRIL 10, 1985

Prime Minister Craxi, Secretary-General Paye, Ministers, ladies and gentlemen: I am pleased to be with you today at these important proceedings; and I wish to commend you, Mr. Prime Minister, for convening this conference to address the question of employment and how it is affected by technology.

I would like to make some observations regarding the U.S. experience in technology and job creation. I would also like to comment on some significant differences between the situation in the United States and in Europe where the primary focus of this conference on employment problems lies.

## TECHNOLOGY AND EMPLOYMENT

Reviewing our experience in the United States, I will state at the outset that technology does create jobs. Rather than being a disruptive force, new technologies have aided the long-term structural changes occurring in our economy.

The United States is at the forefront of technology use, and the rate of that use has been accelerating. In 1960, for example, information technologies equipment were 12 percent of U.S. real capital equipment expenditures. By 1975 the proportion had risen to 17 percent, and today 40 percent -- two-fifths -- of U.S. real capital equipment expenditures are for information technologies equipment.

How has this affected jobs? Between 1960 and 1975, the U.S. economy created 20 million new civilian jobs -- 1.3 million per year. From 1975 to 1982 another 14 million jobs, 2 million a year, were created. And since 1982, 7.2 million more new jobs have been created, a rate of 3.3 million per year.

This increasing rate of job creation matches our increasing rate of technology use. Substantial research confirms that technology and job creation are highly compatible -- not just in the short term, but over the longer term as well.

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In the process, there have been labor dislocations. Over time millions of jobs have been eliminated by technological change. Many more millions of jobs, however, have been created, and still others have been changed and thereby saved in older industries as companies have applied new technologies to remain competitive.

The net result is that new technologies have been accompanied by strong overall job growth and labor mobility from old to new jobs. A substantial amount of worker retraining has been required in some cases, but the private sector has been handling this for the most part. In fact, the private sector spends by far the bulk of retraining monies in the U.S. and does a much better job retraining then the government ever could.

The high-technology industries do not directly create a lot of employment. They account for only 6 million of the 106 million jobs in the United States today. Moreover, the high-tech industries generated only 600 thousand of the over 7 million new U.S. jobs created over the last two years. All the rest of the job growth, 92 percent of it, came from other industries.

But the central point is that the impact of technology goes far beyond the jobs created directly in the high-tech industries. The marriage of new technologies with mature industries has been of the utmost importance in saving jobs that would otherwise have been lost. And without the ability to modernize all sectors of our economy, we would not have seen nearly the job creation we have seen.

Particularly important is the relationship of new technologies to the services sector. Services have accounted for almost all of the 26 million jobs created in the U.S. economy over the past 15 years, and services now provide over two-thirds of total U.S. employment. Yet we simply do not have a good governmental classification of what are services. Services industries are no longer "low-tech" or "no-tech". They are among the most rapidly growing users of new technologies -- particularly information technologies. Banks, retail stores, computer software firms, and insurance firms are lumped with fast-food restaurants and laundries, all being revolutionized by new technologies, raising productivity and creating those millions of new jobs.

Moreover, many of the new jobs in the service sector are directly related to the new high-tech industries. These support jobs have developed in such areas as construction, maintenance, communications, marketing, and financial services.

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Thus the U.S. experience in technology and employment has been a highly positive one. Technology, by itself cannot create jobs, but job creation and the spread of new technologies both have the same genesis. They both come from an economy in which individual initiative is emphasized, and in which the economic bias is in favor of promoting change, rather than resisting change.

In the case of the U.S. we feel that policies of reducing taxation, reducing regulation of the economy, reducing inflation, stimulating investment, and emphasizing stable and sustainable money growth -- have fueled both employment growth and the use of technology.

## THE EUROPEAN SITUATION

In Europe, the situation is quite different. Today nearly two-thirds of the industrial world's unemployment is in Europe, where more than 19 million men and women are out of work -- over 11 percent of the workforce. Even more tragically, youth unemployment is over 25 percent. There has been no net job creation in Europe since 1975.

According to the OECD, 9 million new job-seekers will be on the European labor market by 1990. Just holding European unemployment to today's 11 percent rate means that 8 million new jobs must be created in Europe by 1990 -- 1.4 million new jobs in each of the next six years.

And if unemployment is to be reduced -- say, to the 8.5 percent rate of 1981 -- then over 12 million new jobs will have to be created by 1990 -- 2 million per year. That's a tall order, but it is not impossible.

The first thing that needs to be done is to get rid of the lagging fears that policies stimulating new technologies will hurt job creation. Acting on these fears would put European nations behind America and Japan and would worsen unemployment. The lagging use of technology many Europeans have observed is certainly a problem, and I believe this problem is related to Europe's employment difficulties. But the one problem is not the cause of the other.

Both problems have the same common cause in underlying factors in the European economy. I believe it is useful to take a few minutes to examine these factors and to look at some major differences between the U.S. and European experiences.

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## KEY FACTORS

By far the most important difference is that for at least the last 25 years, the U.S. economy has been generating jobs rapidly, and the European economy hasn't. Europe's job creation difficulties are not new.

Even in 1960-75, when Europe's real GNP was growing a robust 4.2 percent per year, only 7 million jobs were created. Europe's real output grew 85 percent during those 15 years -- but employment grew only 5 percent. Almost 95 percent of Europe's output increase had come from more output per worker rather than from more workers.

Since then, Europe's real GNP growth has slowed to 2 percent per year. Even so, Europe's real GNP is 20 percent larger today than in 1975. But no new jobs have been created. None. All of the increased production since 1975 has come from more output per worker.

In the United States, output increases were much more balanced between machinery and equipment and labor. During 1960-75 our economy grew 3.5 percent per year. Half of that increase came from added employment and half from more output per worker. Since 1975, two-thirds of our output increase has come from added employment and only one-third from higher output per worker -- even though our GNP growth rate slowed slightly to 3.2 percent per year, and even though our rate of technology usage grew rapidly.

Some economists would say that these results indicate that Europe has emphasized productivity and America hasn't. In truth, however, productivity can't be measured only by looking at output per worker. What counts is total factor productivity -- the combined productivity of labor, capital, energy, and other inputs.

For at least 25 years now, American companies have been boosting their productivity by adding more capital and more labor, but European companies have been utilizing capital instead of labor. The amount of capital per worker in Europe, in fact, has been growing about three times as fast as in the United States.

In fact there probably was excessive substitution of capital for labor in Europe. Studies by the EC Commission show that the efficiency of capital in Europe has been dropping noticeably, and is lower than in the United States.

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In asking why U.S. companies have found it efficient to add more labor, the first thing that stands out is labor compensation. In the United States, real labor compensation per hour -- that's adjusted for inflation-- has grown only 5 percent since 1970. In Europe, however, it has grown almost 40 percent since 1970 -- despite an economic slowdown and despite a sharp increase in the potential workforce.

And in manufacturing, the difference has been even more extreme. Real compensation per hour in U.S. manufacturing industries is only 10 percent larger than in 1970. But in Europe, it grew 65 percent over the same period.

In large part these European labor cost increases have been due to government-legislated wage systems that have kept growing regardless of economic realities. But they have also been due to continually-rising non-wage benefits, which now are equivalent to 80 percent of wages in Germany, and 60 percent in France, compared to 28 percent in the United States.

A second major reason why European companies have been more reluctant than U.S. firms to add workers is the existence of powerful barriers to reducing, or even moving, workforce. In France, legally-mandated "consultations" to lay off workers can take up to a year. In Germany, a firm must give up to six months notice that it intends to declare bankruptcy. Costly court battles are not uncommon.

American companies are willing to hire workers, because they know that if things go wrong, they will not be forced to keep a workforce that is too large. European companies know they can't fire workers if they have to, so they avoid hiring them in the first place. And European union leaders have generally lobbied more to increase the benefits of employed workers rather than for policies that would reduce the number of unemployed workers.

The third difference is the tax burden. In the United States, government spending -- federal, state, and local -- is about 36 percent of GNP. In Europe government spending takes 52 percent of GNP -- and its still increasing. Social programs alone now consume 30 percent of Europe's output, a doubling from 25 years ago. As a share of GNP, most European government deficits are even larger than the U.S. deficit.

I don't mean that the U.S. budget deficit isn't one of the major global economic problems -- because it is. Financial markets around the world are affected by it. It is a problem we have to solve and I believe we will. In fact we all have our jobs to do. In the United States it's solving the budget deficit. In Japan it's relying less on export markets and stimulating the domestic economy. And in Europe it's getting rid of structural rigidities and stimulating non-inflationary growth.

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Among the most important of the European structural rigidities are the barriers preventing new companies from being formed. That is the fourth major difference. Last year, 600,000 new U.S. companies were formed, up from 300,000 a decade ago. One of the most important facts in any employment analysis is that small companies employing less than 50 people have accounted for two-thirds of all the recent U.S. job growth. And companies employing less than 100 people have made up most of the rest. This is the entrepreneurial risk and reward system at work.

But in Europe, starting a company can require hundreds of permits, taking months -- or even years. Capital is also harder to obtain and venture capital under present policies is still minimal. Stock exchanges are still geared to old line traditional companies. Banks are leery of lending to start-up companies. So barriers to entry are severe, especially in services industries. I find that perhaps the most remarkable difference of all.

In the United States the services sector has been the dynamic area for new small companies -- providing the job growth for new workers and for many workers displaced in other industries as well. For example, helped by deregulation, 23,000 new firms have been formed over the past four years in the U.S. trucking industry alone.

But in Europe, services industries have been probably the most restricted of all. Banking, insurance, restaurants, retail stores, and other services are protected against new competition by an amazing number of regulations which serve to maintain the status quo. The President of one German state, for example, told me that he had helped eliminate 60 thousand local ordinances -- but he confessed that there were 30 thousand left!

In Austria, government agencies determine if there is a "need" for new services establishments. In another country, an entrepreneur cannot open a restaurant until he has been a chef for so many years, a maitre de for so many years, and so forth. In the United States, all he has to do is to comply with health regulations and let the public judge whether his food and service are good. No wonder services employment has grown more slowly in Europe.

So one finds almost the same attitude in Europe as is found in a lot of less-developed countries, who try to restrict foreign investment in services in order to protect their existing firms. Clearly the result is the opposite of what they try to accomplish -- they merely fall further behind.

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f the costs of market entry are too high the
urial system of risk and reward that has stimulated
any employment growth in the U.S. will not work. Nor
rk if the exit costs are too high because some
will inevitably fail under this system. "Non e rosa
a." (There is no rose without thorns.)

I am struck by the fact that twenty-eight years after
of Rome, there is still no real Common Market.
ustrial standards are still lacking. Government
t, which accounts for up to 20 percent of Europe's
ill not open. Border formalities, according to
Vice President Tugenhadt, add as much as 10 percent
ce of goods crossing national boundaries in the EC.
e breaking down of national economic boundaries was
major reasons for the formation of the EC.

FOR THE FUTURE

a "Europessimist". I am a "Euro-optimist". The
a backward Europe unable to generate technological
and unable to overcome the structural barriers to
s been all too easily accepted by Europeans. I have
example, that the Director of the London School of
believes Britain lost the entrepreneurial spirit in
and can never get it back. I must respectfully and
y disagree.

o many Europeans who have a strong entrepreneurial
believe that. Human nature simply has not changed.
kind of pessimism has to be shaken, or Europe will
elop enough jobs for the future.

no deep-rooted mystique about Europe's job
ies. It's simple economics. I can tell you without
n that if American companies had faced the labor costs
barriers to entry and exit that European companies
to face, we would be in the same boat with the
s.

I have realistic hopes for growth in Europe, <u>if</u> the
found, because the capability is most certainly
You have the world's second-largest market. You have
n your share of the finest scientists and engineers in
d. And you have excellent leaders using economic
that are more convergent than at any time in the
ast.

e is one essential fact that I believe has not received
ttention. It is this: Europe's future economic growth
to have to be generated within Europe.

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Over the last two years, the U.S. economy has accounted for 70 percent of all the increase in demand in the OECD, providing a powerful economic stimulus to Europe both directly and indirectly. The shift in the U.S. trade deficit with Europe, in fact, accounted for at least one-third, and perhaps as much as one-half, of Europe's economic growth since 1982.

Without that stimulus, Europe's growth, which averaged 2 percent over the past two years, would have been only about 1-1.3 percent per year. The growth of the U.S. trade deficit, however, will slow markedly this year, and it will not continue to provide rapid economic stimulus -- not because of protectionism, which would hurt us all -- but because the rate of real GNP growth in the United States is slowing.

Yet Europe needs faster growth. A rough analysis would indicate that Europe needs at least 2.9 percent real GNP growth annually just to handle those 9 million new labor entrants and hold unemployment at the present 11 percent. And just a little more growth -- 3.5 percent per year -- could put unemployment on a sharp downward path. That difference is extremely important and that growth can only come from increased domestic consumption and domestic investment within Europe.

Artificial stimulation of economic growth that would lead to a rekindling of inflationary pressures must be avoided. But some low-inflation European economies are, I believe, now in a position to consider further tax reductions, coupled with a lessening of structural barriers in a way that would provide non-inflationary stimulus to their own economies and to the rest of Europe.

I know that some economists feel that tax cuts and deregulation won't work in Europe. To me that sounds just like the generals who are always fighting the battles of the last war and concentrating only on the "stagflation" problems of the seventies.

What gives me encouragement, however, are the growing number of voices saying that positive steps can and should be taken. I have heard you, Mr. Prime Minister, prescribe sound approaches. The EC Commission has produced excellent suggestions in its recent Economic Report for Europe. The EC Council's report this month represents further agreement on what needs to be done.

Moreover, many sound steps have already begun to be implemented here and there. There have been notable reductions recently in real labor costs. There is progress in removing barriers to the establishment of new companies, in reducing misallocation of investment, and in taking other steps which will improve the ability of the European economies to grow.

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We will do our job in the United States and will reduce our budget deficit, and I think all Europeans here can agree that you know what must be done. The truth is, that these steps would have been taken long ago if they were easy. They are not easy. While it is fairly simple to know what must be done, the real task of leadership is actually doing that which must be done. "Tra il dire e il fare c'e' di mezzo il mare." (Between the saying and the doing lies the width of an ocean.)

Thank you.

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